In 2017, Air Astana turned round its performance. Net profit of USD 39.32 million reversed the company’s first-ever loss of the previous year. Total airline revenue grew by 24% to USD 767.54 million. Operating profit grew by 67% to USD 63.26 million, and net margin was 5.1%.

Airline revenue performance defined this year’s result, and brought to an end three consecutive years of falling sales which followed successive devaluations of the Kazakh tenge in 2014 and 2015. The tenge continues to trade at less than half its pre-2014 value against the US dollar; however, several positive structural changes have since been implemented resulting in a reversal of negative revenue trend. Airfares sold in Kazakhstan onto international routes are now calculated in US dollars and adjusted daily to account for exchange rate fluctuations. Only domestic routes are priced in underlying tenge, and therefore the devaluation effect is limited to approximately 30% of the company’s revenue. The local market has to some extent adapted to a cheaper tenge, maximising exports and releasing greater liquidity and purchasing power into the general economy. The company has been able to significantly grow its network, or sixth freedom business, such that this segment, which grew by 58% in 2017, now accounts for 25% of revenue on international routes. Our Russia, China, Hong Kong, Ukraine, Uzbekistan and EU sales territories all produced significant sixth freedom growth, made possible by low airfares because of the company’s competitive cost base. It is worth dwelling on this point, since it continues to be the key reason why we are able to produce consistently positive financial results, despite being a modest-sized full-service carrier based in a country with a relatively small home market of 18 million people. In the 2016 report, I wrote that our unit cost of 4.6 US cents per available seat kilometre (ASK) gave us “one of the lowest unit costs in the industry, including those of low cost airlines”. In 2017, unit cost increased by 13% to 5.2 US cents per ASK as a result largely, though not exclusively, of higher jet fuel prices. Fuel is a common industry denominator and therefore does not affect relative competitiveness; however it will, if steep enough, affect overall market demand as airfares and fuel surcharges rise. Costs have also come under pressure in other areas of the business. Skilled aviation personnel, particularly flight crews, are in high demand in Asia in particular, and Air Astana’s well trained and internationally qualified pilots have been aggressively targeted by recruiters, requiring us to make significant salary adjustments. Airports, aircraft handlers and air navigation services, aircraft maintenance organisations and other service providers, are mostly operating at maximum or near maximum capacity and prices have risen accordingly.

In spite of cost pressure we have continued to invest heavily in service improvements and staff training. A number of service and sales enhancements have been introduced, including on-board Wi-Fi on Boeing 767 aircraft, in-flight entertainment streaming on aircraft without seat-back televisions, premium advance seat selection, and the MyUpgrade Business Class bidding facility. We were again recognised by Skytrax, which reaffirmed our Four Star status and whose respondents voted us “Best Airline Central Asia and India” and “Best Staff Service Central Asia and India” for the sixth and fifth consecutive years respectively. We received positive exposure and a welcome traffic boost from Astana’s successful and enjoyable EXPO 2017, themed “Future Energy”, which far surpassed its target of 2 million visitors and of which we were a principal sponsor. We continued to train young Kazakhstan nationals to become airline pilots and engineers through our Ab Initio programmes, so that to date, 209 men and women are either in the programme or in line operations with us. At the end of the year we opened an all weather-proof double aircraft bay hangar at Nursultan Nazarbayev Airport in Astana, in which we expect to perform light and heavy aircraft checks in the years to come. We successfully completed the IATA Operational Safety Audit (IOSA) for the fifth consecutive two year period.
Cost pressure, in particular the rapidly escalating jet fuel price to which I referred earlier, remains the single biggest challenge in 2018. Revenue growth will be affected by late aircraft deliveries caused by ongoing engine and delivery management issues at Airbus and Pratt and Whitney of the Airbus NEO, a significant number of which we have on order for our expansion plan. Nonetheless, most markets remain strong, and we can expect significant revenue growth from China and India in particular, following the Government of Kazakhstan’s helpful decision to eliminate the requirement for a visa for customers from these countries wishing to transit through Kazakhstan for a period of up to 72 hours. In conclusion, present trading conditions can best be described as a mixed set of dynamics, which we will continue to manage in order to achieve the best possible outcome for shareholders, customers, staff, and other stakeholders, all of whom I would like to thank for their continued support.

Yours truly,
Peter Foster
MARKET OVERVIEW

Global air transportation market
According to the International Air Transport Association (IATA), global passenger traffic grew by 7.6% in 2017, well above the 10-year compound annual growth rate (CAGR) of 5.5%. Full-year 2017 capacity rose 6.3%, and load factor increased 0.9 percentage points to a record high of 81.4%.

Global international passenger markets
In 2017, global international passenger traffic increased by 7.9% compared to the previous year. Capacity rose 6.4%, and load factor grew to 80.6%.

All regions recorded year-on-year increases in demand, led by the Asia-Pacific and other regions.

Asia-Pacific carriers posted annual demand growth of 9.4% compared to 2016, driven by robust regional economic expansion and an increase in route options for travelers. Capacity rose 7.9%, and load factor climbed 1.1 percentage points to 79.6%.

European carriers’ international traffic climbed 8.2% in 2017 compared to the previous year, underpinned by buoyant economic conditions in the region. Capacity rose 6.1% and load factor surged 1.6 percentage points to 84.4%, which was the highest for any region.

The Middle East was the only region to see a slowdown in its full-year international RPK growth rate in 2017 (to 6.6%, down from 11.5% in 2016). Airlines based in the region faced a challenging first half of the year, although it is worth noting that the Saudi Arabia trend in international RPKs recovered somewhat during the second half.

Kazakhstan’s economy
According to Kazakhstan’s Ministry of National Economy, the country’s GDP grew by 4% in 2017. Kazakhstan’s growing investment appeal is a major driver of sustainable economic growth: in 2017, growth in capital investment increased nearly threefold, funded primarily by companies’ own cash flows, which increased by 20.5%. Investment activity was also boosted by the implementation of innovation-driven industrial projects and infrastructure initiatives under government-sponsored programmes, such as Nyrly Zhol (The Bright Road), Nyrly Zher (housing construction) and Industrialisation, as well as the national Agribusiness–2020 Programme.

The annualised inflation rate decreased to 7.3% from 8.5% in 2016, staying within the 6%–8% range targeted by the National Bank. Kazakhstan’s foreign trade volume increased by 25.1%, with exports increasing by 31.6% and imports by 15.8%.

EXPO 2017, which was hosted in Astana, gave a strong boost to export-oriented industries, which expanded their supply.

Kazakhstan’s air transportation market
The transport sector accounts for more than 8% of the country’s GDP. Kazakhstan’s economy grew by 4% in 2017, with the transport industry driving much of this growth by posting a 4.8% annual growth rate.

Kazakhstan’s aviation market grew rapidly for several years until 2014, when challenging economic conditions stunted growth. Historically, the aviation market has consisted predominantly of local passengers – both domestic and outbound international. Kazakhstan’s market would have contracted in 2016 if it had not been for rapid growth in transit traffic mostly contributed by our Company. The inbound market has grown in recent years – from a very low base – as Kazakhstan has started to emerge as a tourist destination.

Kazakhstan’s total traffic increased by 23% in 2017, the highest growth rate over the past 25 years. The inbound segment grew again in 2017, boosted during the summer by the EXPO, which Astana hosted from June to September.

Passenger traffic at Astana Airport increased by more than 20% in 2017 to over 4 million passengers. While the EXPO impacted traffic through Astana during the summer months, more of the airport’s growth in 2017 was the result of transit traffic because of our Company, which grew by 30%, with freight traffic up 24%. Passenger traffic is expected to grow by 35% by 2020, with transit traffic increasing 2.5-fold and freight traffic doubling.
Evolution of the competitive environment

We are by far the largest carrier in Kazakhstan, having served 4.2 million passengers in 2017.

SCAT reportedly carried 1.7 million passengers in 2017 compared to 1.3 million in 2016. According to IATA, privately owned Bek Air is the third-largest airline in Kazakhstan, having carried slightly fewer than 1 million passengers in 2017, and Qazaq Air is the fourth-largest, with slightly more than 250,000 passengers.

Kazakhstan is pursuing a liberal policy in the aviation market, which has enabled foreign airlines to expand. This policy also poses no barriers to new entrants to Kazakhstan’s aviation market.

In 2017, Kazakhstan’s market was served by 27 foreign airlines, including Aeroflot, Fly Dubai, Turkish Airlines and others. New entrants to the market in 2017 included Air China, Finnair, LOT, and Wizz Air (OAG).